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DEPARTMENT OF LABOR AND INDUSTRY  
(Excluding the Worker's Compensation Division  
and the Employment Security Division)

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
Conducted Under Contract By  
GALUSHA, HIGGINS AND GALUSHA  
Certified Public Accountants

FISCAL YEAR ENDED JUNE 30, 1980

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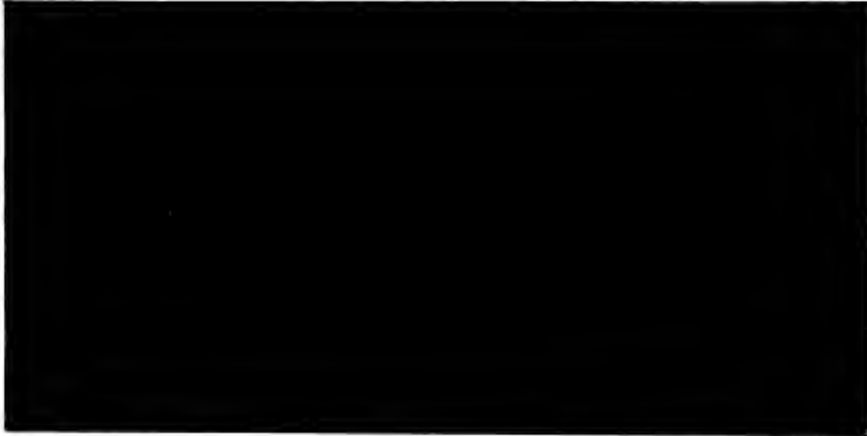


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STATE OF MONTANA

DEPARTMENT OF LABOR AND INDUSTRY  
(Excluding the Worker's Compensation Division  
and the Employment Security Division)

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
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FISCAL YEAR ENDED JUNE 30, 1980



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59601  
406/449-3122



MORRIS L. BRUSETT, C.P.A.  
LEGISLATIVE AUDITOR

October, 1980

ELLEN FEAVER, C.P.A.  
DEPUTY LEGISLATIVE AUDITOR  
JOHN W. NORTHEY  
STAFF LEGAL COUNSEL

OC7 - 8 1980

The Legislative Audit Committee  
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Department  
of Labor and Industry for the year ended June 30, 1980.

The audit was conducted by Galusha, Higgins and Galusha, C.P.A.'s  
under a contract between the firm and our office. The comments and  
recommendations contained in this report represent the views of the  
firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is  
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.  
Legislative Auditor



# APPOINTIVE AND ADMINISTRATIVE OFFICIALS

## Montana Human Rights Commission

		Term Expires
Karen Townsend	Missoula	1981
Peg Krivac	Billings	1981
John Frankino	Helena	1983
Roberta Ferron	Bozeman	1983
Dan Ramirez	Butte	1983

## Board of Personnel Appeals

Brent Cromley, Chairman	Billings	1981
Dr. George Heliker	Big Sky	1983
John Quinn	Great Falls	1983
Mary Munger	Helena	1982
Mary Jo Oreskovich	Anaconda	1984

## Administrative Officials

David Fuller	Commissioner, Department of Labor and Industry
T. Gary Curtis	Administrator, Employment Training Division
Raymond Brown	Administrator, Human Rights Division
Robert Jensen	Administrator, Personnel Appeals Division
Dick Kane	Administrator, Labor Standards Division
Bill Salisbury	Administrator, Centralized Services
Carol Busch	Chief, Apprenticeship Bureau
Joan Duncan	Chief, Women's Bureau
Mike Stump	Chief, Standards Division





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## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of the audit report, we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report, the audited agency's reply thereto, and also as a ready reference to the supporting comments. The full reply from the Department of Labor and Industry is included in the back of this report.

Notify the bank in writing not to accept checks payable to the Department for deposit in the revolving account.

Agency Reply: Concur. See page 1 of the Agency's Reply

Require employees to submit travel claims for seasonal advances and to remit unused portion before the fiscal year end.

Agency Reply: Concur. See page 1 of the Agency's Reply

Utilize pre-numbered receipts and issue receipts for all cash received.

Agency Reply: Concur. See page 1 of the Agency's Reply

Someone who is not involved in payroll preparation be designated to receive all returned W-2's and to undertake their proper disposition.

Agency Reply: Concur. See page 1 of the Agency's Reply

Assure the implementation of the Property Accounting and Management System on the anticipated schedule.

Agency Reply: Concur. See page 2 of the Agency's Reply

Transfer funds within the Employment Training Division to meet accrued expenditures.

Agency Reply: Concur. See page 2 of the Agency's Reply



# GALUSHA HIGGINS & GALUSHA

HELENA, MONTANA  
August 25, 1980

CERTIFIED PUBLIC ACCOUNTANTS  
POST OFFICE BOX 1699  
HELENA, MONTANA 59601

The Legislative Audit Committee  
of the Montana State Legislature

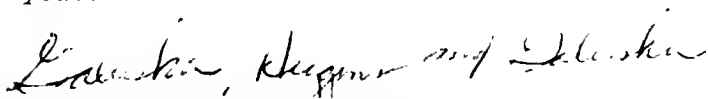
We have examined the balance sheet of the Department of Labor and Industry, excluding the Worker's Compensation Division and the Employment Security Division, as of June 30, 1980, and the related statement program expenditures by object as compared to budget, and combined statement of revenues, expenditures and changes in fund balance, budget and actual, for the year then ended.

As described in the comment section on page 7 of this report, the Department's records relating to fixed assets were such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. The Department does not maintain subsidiary records for equipment sufficient to prepare financial statements. Accordingly, a statement of fixed assets, which is required by generally accepted accounting principles, is not included with these financial statements.

Contract funds receivable in the Federal and Private Revenue Fund at June 30, 1980, in the amount of \$32,643, have not been reflected in these financial statements. This treatment is not in accordance with generally accepted accounting principles which requires accrual of material revenues susceptible to accrual. Therefore, assets, revenues, and fund balance are understated in the Federal and Private Revenue Fund by \$32,643.

In our opinion, because of the effects of the matters discussed above, the balance sheet and the combined statement of revenue, expenditures, and changes in fund balance, budget and actual, for the Federal and Private Revenue Fund do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Department of Labor and Industry, excluding the Worker's Compensation Division and the Employment Security Division, as of June 30, 1980, and the results of its operations and changes in its financial position for the year then ended.

In our opinion, the balance sheet and combined statement of revenues, expenditures and changes in fund balance, budget and actual, for the General Fund, the Earmarked Revenue Fund, the Revolving Fund, and the Wage Collection Trust Fund, and the statement of program expenditures by object as compared to budget, present fairly the financial position of the Department of Labor and Industry, excluding the Worker's Compensation Division and the Employment Security Division, as of June 30, 1980, and the results of its operations and changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



GALUSHA, HIGGINS AND GALUSHA  
Certified Public Accountants



## COMMENTS

### GENERAL

Article XII, Section 2, Constitution of Montana, requires that the legislature establish a Department of Labor and Industry, headed by a commissioner appointed by the Governor and confirmed by the Senate. The legislature has established a Department of Labor and Industry by enacting Section 2-15-1701, Montana Codes Annotated.

Pursuant to the Executive Reorganization Act of 1971, all functions of the former Standards Bureau, Apprenticeship Council, and Women's Bureau were transferred to the Department of Labor and Industry. The Board of Personnel Appeals and the Human Rights Commission are attached to the Department of Labor and Industry for administrative purposes; however, the Human Rights Commission may hire its own personnel, may seek and receive private and federal funds in its own name, and may determine matters of policy concerning the use of its budget.

The Department is divided into six divisions. Two of these divisions, the Employment Security Division and the Worker's Compensation Division, have not been audited by us and are not included in this report.

The other four divisions, the Labor Standards Division, the Personnel Appeals Division, the Human Rights Division, and the Employment and Training Division, are all located in Helena. These divisions employ 64 individuals in addition to the Commissioner of Labor and Industry. The Commissioner of Labor and Industry is responsible for the following major functions in these four divisions:

The Standards Bureau administers the state labor and wage laws including the minimum wage and hour law; the wage payment plan; child labor laws; predetermined minimum wage laws relating to public works contracts; the Restaurant, Bar, and Tavern Wage Protection Act; the Nurse's Employment and Practices Act; the Wage Collection Act; and the licensing and regulation laws relating to private employment agencies.

The Apprenticeship Bureau approves and registers all craft trade apprenticeships in Montana, and approves and registers on-the-job training. The Bureau also acts as an approval agency for veterans who are entitled to Veterans Administration benefits and are engaged in on-the-job training, or trades requiring an apprenticeship.

The Women's Bureau establishes policies which will enable women to contribute their fullest potential to society. The Bureau brings public awareness to the employment problems of women through its educational program.

The Personnel Appeals Division administers the Collective Bargaining Act for public employees; serves as an Appeals Board for state employees covered by the classification and wage plan; conducts grievance hearings for the Department of Highways and the Department of Fish, Wildlife and Parks employees; and hears appeals from State employees contesting their assigned classification and grade levels; and administers the Nurse's Employment and Practices Act.





The Human Rights Division's responsibilities include investigation and hearings of cases involving the right of an individual to be free of discrimination because of race, creed, color, sex, national origin, physical or mental handicap, or marital status; and investigation of civil rights violations in employment, public accommodations, education and financial institutions or labor organizations.

The Employment and Training Division administers both the C.E.T.A. subgrant programs and the State Occupational Information Coordinating Committee (S.O.I.C.C.) grant.

The Centralized Services program provides accounting services, clerical, and other support services for the four divisions listed above.

Our audit disclosed several accounting errors and management weaknesses within these divisions of the Department of Labor and Industry. We discuss our findings and recommendations in the following report.

#### INTERNAL CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily require estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depend upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

#### CASH

The Department maintains a \$750 revolving cash account at the First National Bank of Helena. Checks to reimburse this account are payable to the bank. However, the bank should be instructed in writing, not to accept for deposit checks payable to the agency. This would insure that the deposits into the revolving account were not income of the Department and eliminate the possibility of misappropriation of such deposits from the account.



In addition, the Department utilizes expense vouchers for payment from the revolving account. These vouchers are not pre-numbered. We understand that the Department is utilizing a "PAID" stamp for expense vouchers paid in fiscal year 1981.

#### RECOMMENDATION

We recommend that the Department notify the bank in writing not to accept checks payable to the Department for deposit in the revolving account.

We commend the Department for the use of the cancellation stamp, but would recommend the use of pre-numbered expense vouchers to strengthen the control over the revolving account.

#### EXPENSE ADVANCES TO EMPLOYEES

The Department made seasonal advances to certain employees in July which were to have been eliminated by submitting travel claims to cover advanced amounts (by June 30, 1980). As of the date of our audit, there were still several advances of this nature outstanding. This will result in not matching travel expense to the proper accounting period at fiscal year end.

#### RECOMMENDATION

We recommend that the Department require employees to submit travel claims for seasonal advances, and to remit unused portions before the fiscal year end.

#### CASH RECEIPTS

The Department utilizes a receipt for most items received. However, receipts are not issued for miscellaneous cash received. This indicates a weakness in the cash receipts procedures which could result in cash being received and never being recorded.

#### RECOMMENDATION

We recommend that the Department:

1. utilize pre-numbered receipts to help strengthen control, and
2. issue receipts for all cash received including miscellaneous receipts such as travel advance repayments or book sales.

#### PAYROLL

During our audit, we found that the Department was sending W-2's, returned from the Post Office with incorrect addresses, to the person responsible for preparing the payroll, who either forwards them to a new address or sends them back to Central Payroll for further disposition. The duties of payroll preparation and disposition of returned W-2's should be separated to insure the integrity of the payroll system.



## RECOMMENDATION

We recommend that someone other than the person responsible for payroll preparation be designated to receive all returned W-2's and to undertake their proper disposition.

## TRAVEL

During our testing, we found an instance where an employee was attempting to claim more than the authorized amount on a travel claim. The claim was adjusted back to authorized levels and then paid. This is an excellent demonstration of the system's controls functioning as they were intended.

## EMPLOYEE LEAVE

During our review of employee leave, we found one small mathematical error in the leave records. We brought this to the Department's attention and it was subsequently resolved.

## C.E.T.A. ADMINISTRATION

During our review of the financial statements, we discovered that an accounting transfer from the Federal and Private Grant Clearance Account to the Labor and Industry Federal and Private Revenue Account within the Employment Training Division had not been made. Expenditures were accrued in anticipation of the transfer which resulted in a negative fund balance, and the understatement of assets by approximately \$32,000 in the Federal and Private Revenue Account, and overstatement of assets by approximately \$32,000 in the Federal and Private Grant Clearance Account.

## RECOMMENDATION

We recommend that the Department transfer funds from the Federal and Private Grant Clearance Account to the Federal and Private Revenue Account to meet accrued expenditures.

## PRIOR AUDIT RECOMMENDATIONS

The Department of Labor and Industry has complied with 23 of the 30 recommendations made in the fiscal years 1976 and 1977 audit report. The Department has partially implemented the four recommendations relating to fixed assets inventories. At the time of our examination, a physical inventory had been taken, but the cost records were not complete. The Department is scheduled to be fully converted to the Property Accountability Management System (PAMS) by June 30, 1981. At that time, they will have a complete record of all fixed assets over \$200 in cost. The total inventory will be recorded on the general ledger and the system will ensure an updating of the inventory records.

## RECOMMENDATION

We recommend that the Department assure the implementation of the Property Accounting and Management System on the anticipated schedule.



The recommendation to adopt written procedures whereby a penalty is assessed employers in compliance with Section 41-1302, R.C.M. 1947, (penalty for failure to pay wages on time), has not been adopted. The Department has reviewed the procedures and has concluded that the laws provide for some flexibility in compromising claims and that rigid written procedures would remove that flexibility.

The final two recommendations to adopt written policies concerning forfeiting unclaimed wages to the general fund to assure compliance with Section 41-1314.3, R.C.M. 1947, and to consult with the Department of Administration for assistance in formally accounting for assets accepted in satisfaction of bonding requirements have not been implemented. It is our understanding that the Department plans to implement these recommendations in the near future.

#### FINAL COMMENTS

We have reviewed this report with the Commissioner of the Department of Labor and Industry, the Administrator of the Centralized Services Division and, where applicable, the Central Services staff.

We wish to express our appreciation to the officials of the Department of Labor and Industry for their cooperation and assistance during our engagement.





DEPARTMENT OF LABOR AND INDUSTRY  
(All Funds Excluding the Worker's Compensation Division  
and the Employment Security Division)  
BALANCE SHEET  
JUNE 30, 1980

	GENERAL FUND	EARMARKED REVENUE FUND	FEDERAL AND PRIVATE REVENUE FUND	REVOLVING FUND	WAGE COLLECTION TRUST FUND
ASSETS					
Cash in revolving fund				750	
Cash in Treasury	-0-	4,672	13,451	20,154	20,060
Amount available for accrued expenditures	26,268				
Interagency loans receivable (Note 5)		13,000		9,500	
Federal cost reimbursement receivable			24,163		
Expense advances to employees	237		3,401		
Deferred accounts receivable					3,344
Accounts receivable - dishonored checks					203
Other prepayments				581	
TOTAL ASSETS	<u>26,505</u>	<u>17,672</u>	<u>41,015</u>	<u>30,985</u>	<u>23,607</u>
LIABILITIES					
Accrued expenditures	26,268	783	45,069		
Accrued withdrawals				12,397	
Interagency loans payable (Note 5)			10,000	12,500	
TOTAL LIABILITIES	<u>26,268</u>	<u>783</u>	<u>55,069</u>	<u>24,897</u>	<u>-0-</u>
RESERVES AND FUND BALANCE					
Reserve for deferred accounts receivable	237				3,344
Account for property held in trust					20,263
Fund balance	-0-	16,889	(14,054)	6,088	-0-
TOTAL RESERVES AND FUND BALANCES	<u>237</u>	<u>16,889</u>	<u>(14,054)</u>	<u>6,088</u>	<u>23,607</u>
TOTAL LIABILITIES, RESERVES, AND FUND BALANCE	<u>26,505</u>	<u>17,672</u>	<u>41,015</u>	<u>30,985</u>	<u>23,607</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF LABOR AND INDUSTRY  
(All Funds Excluding the Worker's Compensation Division  
and the Employment Security Division)  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 1980

	GENERAL FUND			EARMARKED REVENUE FUND			FEDERAL AND PRIVATE	
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget	Budget	Actual
REVENUES								
Reimbursements	-0-	4,761	4,761					
Service fees	-0-	736	736					
Employment agency fees				2,800	5,925	3,125		
Documents sold				2,000	343	(1,657)		
Federal assistance							1,241,635	1,076,358
Miscellaneous receipts								
Appropriation transfers								
Total revenues	-0-	5,497	5,497	4,800	6,268	1,468	1,241,635	1,076,358
EXPENDITURES								
Commissioner								
Centralized Services								
Labor Standards	341,255	338,214	3,041	1,400	915	485	98,140	93,062
Personnel Appeals	263,536	262,698	838					
Employment and Training							1,257,353	1,051,368
Human Rights	67,689	65,900	1,789				111,844	106,834
Total expenditures	672,480	666,812	5,668	1,400	915	485	1,467,337	1,251,264
Excess of current revenue over (under) current expenditures	(672,480)	(661,315)	11,165	3,400	5,353	1,953	(225,702)	(174,906)
OTHER FINANCING SOURCES (USES)								
Prior year adjustments	(4,889)	(4,889)	-0-				147,703	147,703
Support from the General Fund	677,369	666,204	(11,165)					
Excess of revenues over (under) expenditures and other sources (uses)	-0-	-0-	-0-	3,400	5,353	1,953	(77,999)	(27,203)
Fund Balance, July 1, 1979	-0-	-0-	-0-	11,536	11,536	-0-	13,149	13,149
Fund Balance, June 30, 1980	-0-	-0-	-0-	14,936	16,889	1,953	(64,850)	(14,054)

REVENUE FUND	REVOLVING FUND			WAGE COLLECTION TRUST FUND			TOTALS (MEMORANDUM ONLY)		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
							-0-	4,761	4,761
							-0-	736	736
							2,800	5,925	3,125
							2,000	343	(1,657)
(165,277)	8,000	5,540	(2,460)				1,241,635	1,076,358	(165,277)
	350,079	345,480	(4,599)				8,000	5,540	(2,460)
(165,277)	358,079	351,020	(7,059)	-0-	-0-	-0-	350,079	345,480	(4,599)
							1,604,514	1,439,143	(165,371)
	76,958	76,355	603				76,958	76,355	603
5,078	269,981	268,757	1,224				269,981	268,757	1,224
	8,000	7,004	996				440,795	432,191	8,604
205,985							271,536	269,702	1,834
5,010							1,257,353	1,051,368	205,985
216,073	354,939	352,116	2,823	-0-	-0-	-0-	179,533	172,734	6,799
							2,496,156	2,271,107	225,049
50,796	3,140	(1,096)	(4,236)	-0-	-0-	-0-	(891,642)	(831,964)	59,678
-0-	528	528	-0-				143,342	143,342	-0-
							677,369	666,204	(11,165)
50,796	3,668	(568)	(4,236)	-0-	-0-	-0-	(70,931)	(22,418)	48,513
-0-	6,656	6,656	-0-	-0-	-0-	-0-	31,341	31,341	-0-
50,769	10,324	6,088	(4,236)	-0-	-0-	-0-	(39,590)	8,923	48,513

DEPARTMENT OF LABOR AND INDUSTRY  
 (All Funds Excluding the Worker's Compensation Division  
 and the Employment Security Division)  
 STATEMENT OF PROGRAM EXPENDITURES BY OBJECT AS COMPARED TO BUDGET  
 FISCAL YEAR ENDED JUNE 30, 1980

	COMMISSIONER OF LABOR AND INDUSTRY		CENTRALIZED SERVICES		LABOR STANDARDS DIVISION	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
PERSONAL SERVICES						
Salaries	52,622	52,889	103,591	116,371	252,073	251,421
Other compensation						550
Employee benefits	5,224	5,787	22,950	23,950	45,912	44,803
Total	<u>57,846</u>	<u>58,676</u>	<u>126,541</u>	<u>140,321</u>	<u>297,985</u>	<u>296,774</u>
OPERATING EXPENSES						
Contracted services	500	341	7,200	7,100	12,895	16,356
Supplies and material	200	79	5,400	6,491	1,950	1,649
Communications	1,500	284	26,000	29,343	5,198	6,202
Travel	1,617	1,375	500	966	32,448	28,148
Rent	1,500	1,529	80,050	74,117	200	693
Utilities			6,500	5,813		
Repairs and maintenance	150	77	1,000	3,048	350	742
Other expense	500	83	600	1,267	4,615	2,350
Total	<u>5,967</u>	<u>3,768</u>	<u>127,250</u>	<u>128,145</u>	<u>57,656</u>	<u>56,140</u>
Equipment				291	7,100	7,432
Transfers	<u>13,145</u>	<u>13,911</u>			<u>76,421</u>	<u>71,846</u>
Total Expenditures	<u>76,958</u>	<u>76,355</u>	<u>253,791</u>	<u>268,757</u>	<u>439,162</u>	<u>432,192</u>

PERSONNEL APPEALS DIVISION		EMPLOYMENT AND TRAINING DIVISION		HUMAN RIGHTS		TOTAL	
Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
160,605	165,824	571,692	479,029	109,870	108,311	1,250,453	1,173,845
1,500	925	3,200	3,125	525	875	5,225	5,475
27,512	27,934	102,214	84,384	21,012	19,739	224,824	206,597
<u>189,617</u>	<u>194,683</u>	<u>677,106</u>	<u>566,538</u>	<u>131,407</u>	<u>128,925</u>	<u>1,480,502</u>	<u>1,385,917</u>
16,259	15,463	293,416	226,858	9,118	9,991	339,388	276,109
1,000	514	5,330	6,400	1,800	1,806	15,680	16,939
1,000	1,482	9,465	8,612	8,100	8,068	51,263	53,991
12,733	12,264	74,088	74,377	9,500	6,290	130,886	123,420
300	368	10,400	6,322	8,432	7,813	100,882	90,842
						6,500	5,813
200	487	3,475	3,673	400	493	5,575	8,520
2,000	1,088	16,492	20,262	204	771	24,411	25,821
<u>33,492</u>	<u>31,666</u>	<u>412,666</u>	<u>346,504</u>	<u>37,554</u>	<u>35,232</u>	<u>674,585</u>	<u>601,455</u>
		8,500	4,286	2,500		18,100	12,009
<u>48,427</u>	<u>43,353</u>	<u>159,081</u>	<u>134,039</u>	<u>5,955</u>	<u>8,577</u>	<u>303,029</u>	<u>271,726</u>
<u>271,536</u>	<u>269,702</u>	<u>1,257,353</u>	<u>1,051,367</u>	<u>177,416</u>	<u>172,734</u>	<u>2,476,216</u>	<u>2,271,107</u>



DEPARTMENT OF LABOR AND INDUSTRY  
(Excluding the Worker's Compensation Division  
and the Employment Security Division)  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1980

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

A summary of the agencies significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. The accompanying financial statements have been prepared from the reports generated by the Statewide Budgeting and Accounting System (SBAS).

MODIFIED ACCRUAL BASIS

The State of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received as cash. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law." (Montana Administrative Manual 2-0240.40)

FUND ACCOUNTING

The accompanying financial statements are prepared in accordance with the principles of "fund accounting" wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. These separate funds are then combined according to their common characteristics into fund groups (each a complete accounting entity with a self-balancing set of accounts) and reflected by fund groups in the accompanying financial statements.

Description of common characteristics of the funds in the various fund groups are as follows:

GENERAL FUND

The General Fund is used to account for financial transactions not properly accounted for in another fund. The General Fund has three distinct programs: Labor Standards, Personnel Appeals, and Human Rights.

EARMARKED REVENUE FUND

The Earmarked Revenue Fund is used to account for the proceeds of state and private funds for specific activities such as the Private Employment Agency and the Women's Bureau.





DEPARTMENT OF LABOR AND INDUSTRY  
(Excluding the Worker's Compensation Division  
and the Employment Security Division)  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1980

NOTE - 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

FEDERAL AND PRIVATE REVENUE FUND

The Federal and Private Revenue Fund is used to account for the costs incurred in administering the federal and private programs such as C.E.T.A. and S.O.I.C.C.

REVOLVING FUND

The Revolving Fund is used to account for special activities, such as accounting and administration, performed by a designated accounting entity for the other entities within the government unit.

TRUST FUND

The Trust Fund is used to account for assets held by the governmental entity as trustee for various persons employed within the state who have not been compensated in accordance with minimum wage standards.

VACATION AND SICK PAY

The value of unused vacation and unused sick leave accumulated by employees is not recorded as a liability. Each permanent employee can accumulate and carry over a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971, is purchased from the employee at 25% value. The amount of accumulated leave at June 30, 1980, was not readily available.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Uncollectible wage trust accounts are not recognized until the accounts are written off or canceled. The accounts are written off as uncollectible when they are given to the Department of Revenue. Generally accepted accounting principles require the establishment of an allowance for uncollectible accounts.

GENERAL FIXED ASSETS AND DEPRECIATION

General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. There are no accounting controls for the general fixed assets group of accounts, and depreciation is not provided on general fixed assets. The Department is purchasing an I.B.M. System 6 on an installment payment contract. The assets acquired under this contract and the related liability have not been recorded. The present monthly contract payments are \$1,516.



DEPARTMENT OF LABOR AND INDUSTRY  
(Excluding the Worker's Compensation Division  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1980

NOTE 2 - RETIREMENT PLAN

The State of Montana employees at the Department of Labor and Industry participate in the Public Employees' Retirement System which covers substantially all of the State of Montana's employees. Employer contributions for the year ended June 30, 1980, for PERS for all funds were \$70,010. The unfunded past service costs and the actuarially computed value of vested benefits are not readily available for members of the plans employed by the Department of Labor and Industry.

NOTE 3 - LEASE COMMITMENTS

The Department is liable for the following lease commitments:

	Term	MINIMUM LEASE PAYMENTS			
		Monthly	Yearly	Aggregate	Future
Office Space: Aspen Court - 4 years, expiring on 6/30/81, renewable for two - 4 year terms		\$4,541	\$54,492	\$217,968	\$54,492
Boston Block: 2 years expiring 6/30/82, renewable for two - 1 year terms		370	4,440	8,880	8,880
Steamboat Block: 2 years expiring 5/31/81		700	8,400	16,800	7,700
Telephone System: 3 years, expiring 9/9/80		827	9,924	29,772	2,481
various, expiring 9/1/81		633	7,596	22,788	9,495
		<u>\$7,071</u>	<u>\$84,852</u>	<u>\$296,208</u>	<u>\$83,048</u>

NOTE 4 - FEDERAL AND PRIVATE REVENUE FUND

This fund does not include funds received under C.E.T.A. sub-grants. It is limited to funds received for administration of the C.E.T.A. sub-grants.

NOTE 5 - INTERAGENCY LOANS RECEIVABLE AND PAYABLE

The interagency loans receivable and payable represent short-term loans to and from the various entities to alleviate temporary cash deficiencies. The interagency loans receivable and payable at June 30, 1980 were as follows:

	Loans Receivable		Loans Payable
Earmarked Revenue Fund	\$13,000	Federal and Private Revenue Fund	\$10,000
Revolving Fund	9,500	Revolving Fund	12,500
Total	<u>\$22,500</u>	Total	<u>\$22,500</u>



DEPARTMENT OF LABOR AND INDUSTRY  
COMMISSIONER'S OFFICE



THOMAS L. JUDGE, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 449-2621

HELENA, MONTANA 59601

October 14, 1980

Galusha Higgins & Galusha  
Certified Public Accountants  
111 North Last Chance Gulch  
Helena, Montana 59601

Dear Sirs:

We have reviewed your firm's audit report of the accounts and programs of the Department of Labor and Industry excluding the Employment and Security Division and the Workers' Compensation Division. The following are our general comments about the audit and our specific responses to the various recommendations contained in the report.

We found the report and audit scope to be generally comprehensive and agree with the recommendations regarding accounting weaknesses. We commend your staff for their professionalism, courtesy and willingness to cooperate with our staff since the audit took place during a very busy period of fiscal year-end, the beginning of a new fiscal year and the biennium budget process.

I am pleased to note that the accounting procedures have improved dramatically since the previous audit report that revealed numerous problems which occurred before I became Commissioner of Labor and Industry. The department has worked very hard to establish good accounting and management controls and we appreciate your recommendations for further improvement. We will continue to strive for improvement and compliance with all applicable accounting procedures and State of Montana laws and policies.

Sincerely,

A handwritten signature in black ink, appearing to read "David E. Fuller".

DAVID E. FULLER  
Commissioner

CS3:B



Our response to the audit recommendations are as follows:

Recommendation

We recommend that the Department notify the bank in writing not to accept checks payable to the Department for deposit in the revolving account.

We concur with the recommendation and will notify the bank in writing as soon as possible. We will also immediately begin using pre-numbered expense vouchers to further strengthen our control over this revolving account.

Recommendation

We recommend that the Department require employees to submit travel claims for seasonal advances and to remit unused portions before the fiscal year end.

We concur with this recommendation. Although current policies already require elimination of travel advances by fiscal year end, we were not able to collect several advances by the fiscal year end. All advances were subsequently collected and the applicable expenses were charged to the proper accounting period by using SBAS prior year expenditure coding.

Recommendation

We recommend that the Department:

1. Utilize pre-numbered receipts to help strengthen control;
2. Issue receipts for all cash received including miscellaneous receipts such as travel advance repayments or book sales.

We concur with these recommendations and will issue pre-numbered receipts to all divisions receiving miscellaneous cash with proper instructions and controls.

Recommendation

We recommend that someone other than the person responsible for payroll preparation be designated to receive all returned W-2's and to undertake their proper disposition.

We concur with this recommendation and will instruct the person who opens the mail to give all returned W-2's to another person in Centralized Services who is independent of the payroll function. This person will be instructed to forward them to the individual if possible or return them to the State Auditor's office.





### Recommendation

We recommend that the Department assure the implementation of the Property Accounting and Management System on the anticipated schedule.

We concur with this recommendation and have placed all assets currently inventoried on the system as of this date. We are now attempting to establish accurate and reasonable cost data for these assets which will take some time to accomplish since most assets were purchased in previous years and many before accurate accounting records were maintained.

### Recommendation

We recommend that the Department transfer funds from the Federal and Private Grant Clearance account to the Federal and Private Revenue Account if they are not received by the fiscal year end to meet accrued expenditures.

We concur with this recommendation and we will take the appropriate action to ensure that cash will be transferred between these entities at fiscal year end to meet accrued expenditures.

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Montana. Office of the Legislative Auditor.

Department of Labor and Industry : (excluding the  
Worker's Compensation Division and the Employment  
Security Division) : report on examination of financial  
statements, 1980-

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Helena : Office of the Legislative Auditor.

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1. Montana. Dept. of Labor and Industry--Audit.

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Montana. Office of the Legislative Auditor.  
Department of Labor and Industry : excluding the  
Worker's Compensation Division and the Employment  
Security Division, 1980



